

1977 Annual Report



File
Pe Ben Oilfield Services Ltd.

Pe Ben Oilfield Services Ltd.

1977 Annual Report

Contents

- | | |
|-------------------------------|-----------------------------------|
| 1. Highlights of Operations | 8. Balance Sheet |
| 3. Report to the Shareholders | 10. Changes in Financial Position |
| 6. Auditors' Report | 11. Notes to Financial Statements |
| 7. Earnings | Corporate Information |

Annual Meeting

The Annual General Meeting of the Shareholders of the Company shall be held in Edmonton, Alberta, at the Pe Ben office on Wednesday, June 28, 1978 at the hour of 2 o'clock in the afternoon.



Highlights of Operations

	1977	1976
Gross revenues	20,200,599	14,339,416
Income (loss) before taxes, extraordinary item, and minority interests	994,476	(2,435,182)
Income (loss) from operations (before extraordinary item and minority interests)	524,957	(1,249,182)
Working capital at year end	1,672,870	397,295
Additions to property, plant and equipment	2,958,025	3,845,483
Long term debt at year end	3,742,580	2,973,658
Total assets at year end	16,428,662	13,766,002
Shareholders' equity at year end	5,774,553	5,179,408
Shares outstanding	1,877,600	1,877,600
Income (loss) per share before extraordinary item	(.10)	(.71)
Net income (loss) per share for the year	.32	(.11)



Report to the Shareholders

The Board of Directors submit the Annual Report and Consolidated Financial Statements for the fiscal year ended December 31, 1977.

OPERATIONAL REVIEW (Consolidated)

Gross revenue for 1977 was \$20,200,599 compared to \$14,339,416 for 1976.

Net income for 1977 was \$595,145 compared to a loss of \$197,282 for 1976 representing an improvement of \$792,427.

Net income per share for 1977 was 32¢ compared to a loss per share of 11¢ in 1976.

The extraordinary items of \$773,661 in 1977 was the result of disposal of the Estevan Brick Division.

Loss before extraordinary item in 1977 was \$178,516 compared to the 1976 loss of \$1,329,872.

Working capital as at December 31, 1977 was \$1,672,870 or an increase of \$1,275,575 since December 31, 1976.

Fixed asset acquisitions (net) in 1977 amounted to \$1,525,326 compared to \$3,031,339 for 1976.

Demand for the Company's pipe stringing services has been less than buoyant over the past few years. It is therefore gratifying to report that the Company's diversification into pipeline construction has been successful and now represents our major activity. In 1977 Pe Ben Pipelines Limited gained recognition as a major contractor in the pipeline industry. While the prospects for 1978 are cloudy, the pipeline construction market will improve when contemplated inter-continental gas pipelines come out for tender.

To conserve resources, in view of the potential participation in the proposed Alaska gas line, the Company is withdrawing from the arrangements with the Milton Group Ltd. (Milton). The agreement with Milton required Pe Ben to provide management services for its brick manufacturing plant and arranging financing in return for a Pe Ben option to purchase a controlling interest in the Milton Group Ltd.

Report to the Shareholders

CONTINUED

It has been agreed with one voting minority shareholder of Pe Ben Pipelines Limited (pipeline subsidiary) that, subject to approval of regulatory authorities, Pe Ben Oilfield Services Ltd. (parent) will acquire all of his present shareholdings in the pipeline subsidiary.

The parent's share participation in the pipeline subsidiary will increase upon the completion of the transaction.

Mr. Peter W. Shipka, one of the co-founders of the Company, has been named Chairman of The Board of Directors.

Mr. Grant H. Bigelow, C.A., has been named President and Chief Executive Officer. Prior to joining Pe Ben, Mr. Bigelow was President and Chief Executive Officer of The Foundation Company of Canada Limited and has also had ten years service with the Calgary-based Loram organization.

OUTLOOK

The results for the First Quarter of 1978 show an operating loss of \$71,460 or 3.8¢ per share compared to a profit of 26.9¢ per share for the First Quarter in 1977. The cautious optimism that prevailed after the First Quarter was not warranted. Therefore, management is conducting an indepth review of operations in the face of what is apparently a depressed 1978 fiscal period.

Your Company further intends to follow a policy of improving financial liquidity, as well as taking the necessary steps to prepare for the surge of business expected in 1979 or 1980.

On behalf of the Board of Directors

P. W. SHIPKA

Chairman of the Board

G. H. BIGELOW

President

FINANCIAL
STATEMENTS
1977



Auditors' Report

TO THE SHAREHOLDERS

Pe Ben Oilfield Services Ltd.

We have examined the consolidated balance sheet of Pe Ben Oilfield Services Ltd. as at 31 December 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Pe Ben Oilfield Services Ltd. and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one of the subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at 31 December 1977 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DUNWOODY & COMPANY
CHARTERED ACCOUNTANTS

24 February 1978
Edmonton, Alberta

Pe Ben Oilfield Services Ltd.

Consolidated Statement of Income and Retained Earnings

For the year ended 31 December 1977

	1977	1976
Revenue, Note 2	\$20,200,599	\$14,339,416
Expenses		
Operating and administration, Note 2	17,903,567	15,610,670
Depreciation	835,599	733,078
Interest on long term debt	344,918	313,156
Other interest	128,519	199,570
Gain on disposal of fixed assets	(6,480)	(81,876)
	<u>19,206,123</u>	<u>16,774,598</u>
Income (loss) before income taxes, minority interest and extraordinary item	994,476	(2,435,182)
Income taxes		
Current	214,900	(481,000)
Deferred, Note 1	254,619	(705,000)
	<u>469,519</u>	<u>(1,186,000)</u>
Income (loss) before minority interest and extraordinary item	524,957	(1,249,182)
Minority interest in the net income of subsidiary company	703,473	80,690
Loss before extraordinary item	(178,516)	(1,329,872)
Extraordinary item, Note 10	773,661	1,132,590
Net income (loss) for the year	595,145	(197,282)
Retained earnings, beginning of year	3,360,091	3,557,373
Retained earnings, end of year	<u>\$ 3,955,236</u>	<u>\$ 3,360,091</u>
Earnings per share		
Income (loss) before extraordinary item ...	(.10)	(.71)
Extraordinary item	.42	.60
Net income (loss) for the year	<u>.32</u>	<u>(.11)</u>

Consolidated Balance Sheet

	ASSETS	
	1977	1976
Current		
Cash	\$ 17,005	\$ —
Short term deposit receipts	1,950,000	—
Accounts receivable	3,467,013	3,050,218
Income taxes recoverable	495,141	517,009
Inventories, Notes 1 and 3	340,657	1,043,990
Prepaid expenses	216,980	336,401
Current portion of note receivable	89,800	136,708
	6,576,596	5,084,326
Note Receivable	134,700	—
Fixed, Notes 1 and 4	9,371,064	8,194,600
Other, Notes 1 and 5	346,302	487,076

Director

\$13,766,002

LIABILITIES

	<u>1977</u>	<u>1976</u>
Current		
Bank indebtedness, Note 6	\$ 224,675	\$ 1,725,721
Accounts payable	2,992,485	1,679,960
Income taxes	192,429	—
Current portion of long term debt	1,339,637	1,281,350
Deferred income taxes	154,500	—
	<u>4,903,726</u>	<u>4,687,031</u>
Long Term Debt, Note 7	<u>3,742,580</u>	<u>2,973,658</u>
Deferred Income Taxes, Note 1	<u>1,212,400</u>	<u>837,575</u>
Minority Interest in Subsidiary Company, Note 1	<u>795,403</u>	<u>88,330</u>

SHAREHOLDERS' EQUITY

Share Capital, Note 8		
Authorized		
2,500,000 shares of no par value		
Issued		
1,877,600 shares	1,819,317	1,819,317
Retained Earnings	<u>3,955,236</u>	<u>3,360,091</u>
	<u>5,774,553</u>	<u>5,179,408</u>
	<u>\$16,428,662</u>	<u>\$13,766,002</u>

Statutory Information, Note 9
Anti-Inflation Act, Note 11
Contingent Liabilities, Note 12

Pe Ben Oilfield Services Ltd.

Consolidated Statement of Changes in Financial Position

for the year ended 31 December 1977

	1977	1976
Source of funds		
Operations		
Loss before extraordinary item	\$ (178,516)	\$(1,329,872)
Items not involving funds		
Depreciation	835,599	733,078
Deferred income taxes, non-current	100,119	(369,250)
Amortization	112,707	58,856
Gain on disposal of fixed assets	(6,480)	(81,876)
	863,429	(989,064)
Proceeds on sale of fixed assets	434,062	482,712
Reduction in long term receivable	—	136,708
Increase in long term debt, net	935,348	1,990,938
Proceeds from extraordinary item	1,293,688	1,132,590
Increase in minority interest	707,073	88,330
	4,233,600	2,842,214
Application of Funds		
Purchase of fixed assets	2,958,025	3,845,483
Increase (decrease) in working capital	1,275,575	(1,003,269)
Working capital, beginning of year	397,295	1,400,564
Working Capital, end of year	<u>\$ 1,672,870</u>	<u>\$ 397,295</u>
Represented By:		
Current assets	\$6,576,596	\$5,084,326
Current liabilities	4,903,726	4,687,031
	<u>\$ 1,672,870</u>	<u>\$ 397,295</u>

Notes to Consolidated Financial Statements

as at 31 December 1977

1. Significant Accounting Policies

The following is a summary of certain significant accounting policies of the company:

(a) Financial statement presentation

These financial statements include the accounts of the company, its wholly owned subsidiaries and a subsidiary, Pe Ben Pipelines Limited, in which the company owns 51% of the voting shares representing 47.2% of the equity (47.6% 1976). The accounts of Pe Ben Pipelines Limited include its proportionate share of the assets, liabilities, revenue and expenses of two joint ventures.

(b) Inventories

The inventories of parts and supplies are valued at the lower of cost and replacement cost.

(c) Depreciation

Depreciation is provided on fixed assets on the straight line basis as follows:

Office buildings and parking lot	— 5%
Cranes and heavy construction equipment	— 5%
Contract buildings	— 10%
Machinery and office equipment	— 10%
Heavy trucks and trailers	— 10%
Light trucks and automobiles	— 20%

(d) Storage yard improvements

Storage yard improvements are being amortized on a straight line basis over five years.

(e) Deferred income taxes

Deferred income taxes arise from claiming depreciation and other items for tax purposes in amounts varying from that recorded in the accounts. The deferred income taxes have been reduced by tax losses carried forward totalling \$1,900,000 in a 100% owned subsidiary.

Notes to Consolidated Financial Statements

as at 31 December 1977

2. Operations

The company's subsidiary, Pe Ben Pipelines Limited, held a 50% interest in each of the two joint ventures and acted as manager of both of the joint ventures. The financial statements include the proportionate share of the assets, liabilities, revenue and expenses of the joint ventures.

3. Inventories

	<u>1977</u>	<u>1976</u>
Manufactured brick and raw materials, Estevan Brick	\$ —	\$ 748,206
Work in progress	—	114,124
Parts and supplies	<u>340,657</u>	<u>181,660</u>
	<u>\$ 340,657</u>	<u>\$1,043,990</u>

4. Fixed Assets

	1977		1976	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 586,136	\$ —	\$ 637,836	\$ —
Office buildings and parking lot	786,442	157,319	648,475	105,156
Cranes and heavy construction equipment .	4,966,357	459,069	3,291,256	273,381
Contract buildings	273,136	75,356	195,876	52,688
Machinery and office equipment	1,063,481	225,946	766,146	134,870
Heavy trucks and trailers	3,724,965	1,517,904	3,845,043	1,488,727
Light trucks and automobiles	553,248	147,107	429,184	82,774
Balance carried forward	\$11,953,765	\$2,582,701	\$9,813,816	\$2,137,596

Pe Ben Oilfield Services Ltd.

Notes to Consolidated Financial Statements

as at 31 December 1977

Balance brought forward	\$11,953,765	\$2,582,701	\$9,813,816	\$2,137,596
Land, building and equipment, Estevan Brick Division	<u>—</u>	<u>—</u>	<u>614,623</u>	<u>96,243</u>
	<u>11,953,765</u>	<u>2,582,701</u>	<u>10,428,439</u>	<u>2,233,839</u>
Cost less accumulated depreciation		<u>\$9,371,064</u>		<u>\$8,194,600</u>

5. Other Assets

	<u>1977</u>	<u>1976</u>
Operating authorities, at cost	\$ 227,306	\$ 227,306
Storage yard improvements, at cost less portion amortized	<u>118,996</u>	<u>259,770</u>
	<u>\$ 346,302</u>	<u>\$ 487,076</u>

6. Bank Indebtedness

	<u>1977</u>	<u>1976</u>
Overdraft	\$ 144,675	\$ 455,721
Loans	<u>80,000</u>	<u>1,270,000</u>
	<u>\$ 224,675</u>	<u>\$1,725,721</u>

The bank loans are secured by a general assignment of book debts and a debenture.

7. Long Term Debt

	<u>1977</u>	<u>1976</u>
Conditional sales agreement, secured by equipment, repayable \$12,082 monthly including principal and interest at the prime rate plus 2½%, maturing 1980	\$ 221,106	\$ 681,782
Agreement for sale, repayable \$6,944 monthly, plus interest at prime rate plus 2%, maturing 1980	<u>236,111</u>	<u>250,000</u>
Balance carried forward	\$ 457,217	\$ 931,782

Pe Ben Oilfield Services Ltd.

Notes to Consolidated Financial Statements

as at 31 December 1977

	<u>1977</u>	<u>1976</u>
Balance brought forward	\$ 457,217	\$ 931,782
Mortgage and lease purchase agreement, Estevan Brick	—	173,226
9¾% Bank loans, secured by hypothecation of fixed and floating charge debentures in the amounts of \$8,275,000 on all assets of the company, a general assignment of book debts and an assignment of insurance on the assets. The bank loans are demand notes but the banking agreement provides for terms of repayment totalling \$268,750 quarterly. All bank loans will be retired by 1983. The company has given a letter of undertaking to the bank agreeing not to acquire additional companies or make capital expenditures (other than replacement) in excess of \$100,000 without prior approval of the bank.	<u>4,625,000</u>	<u>3,150,000</u>
	5,082,217	4,255,008
Current portion	<u>1,339,637</u>	<u>1,281,350</u>
	<u>\$3,742,580</u>	<u>\$2,973,658</u>
Principal payments due in the next five years are as follows:		
1978	\$1,339,637	
1979	1,255,821	
1980	1,161,759	
1981	775,000	
1982	275,000	
Subsequent to 1982	<u>275,000</u>	
	<u>\$5,082,217</u>	

8. Share Exchange Option

There is an agreement dated 14 May 1976 between the company and the two voting minority shareholders of Pe Ben Pipelines Limited whereby they shall have the right to

Notes to Consolidated Financial Statements

as at 31 December 1977

convert their respective holdings in Pe Ben Pipelines Limited into shares of the company in accordance with an agreed upon formula related to the respective book values of the two companies. This option is exercisable at any time after the first two complete operating years and prior to the sixth operating year. The above agreement is subject to the approval of the regulatory authorities.

9. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the companies to the directors and senior officers of the company amounted to \$155,041 (1976, \$122,500).

10. Extraordinary Item

On 1 January 1977, the net assets of the Estevan Brick Division were sold for \$1,600,000 cash plus an interest free note receivable of \$224,500, repayable in five equal annual payments commencing in 1977. This resulted in a gain of \$773,661 after provision for deferred income taxes of \$274,706.

In 1976, the company received an amount of \$1,132,590 in settlement of damages for breach of contract. No income tax was provided on this amount, but Revenue Canada, Taxation is proposing to reassess this amount as income.

11. Anti-Inflation Act

The company is subject to the restraints of the Anti-Inflation Act with respect to profit margins, employee compensation and shareholder dividends.

As at 31 December 1977, based upon the company's present understanding of the Anti-Inflation Act, it has complied with the provisions of that Act.

12. Contingent Liabilities

Revenue Canada, Taxation has proposed to reassess the 1976 extraordinary item of \$1,132,590. No provision has been made for deferred income taxes of \$550,000 as tax counsel for the company remains of the opinion that the receipt of \$1,132,590 for breach of contract is non-taxable.

The company has guaranteed bank loans totalling \$975,000 to Milton Group Ltd. as at 31 December 1977.

Notes to Consolidated Financial Statements

as at 31 December 1977

13. Option Agreement with Milton Group Ltd.

On 7 January 1977, one of the company's subsidiaries entered into an agreement with Milton Group Ltd. for supplying satisfactory management services to its brick manufacturing plant and arranging proper financing in return for an option to purchase a controlling interest in the company at \$1.29 a share exerciseable within three years of the contract date. As at 31 December 1977, the company had loaned on demand \$170,000 with interest at 9¾% and had guaranteed bank loans of Milton Group Ltd. totalling \$975,000.

The company has an agreement in principle with one of its major shareholders to receive 50% of the share option in return for sharing the above management services and providing further bank guarantees.

Corporate Information

Board of Directors:

P. W. Shipka, Chairman of the Board, Edmonton
G. H. Bigelow, Edmonton (elected March 17, 1978)
J. N. Turvey, Vancouver
B. F. Michetti, Edmonton
H. A. Martin, Vancouver
G. P. Clarkson, Toronto
G. R. Caron, Edmonton
M. Gaasenbeek, Toronto

Officers:

G. H. Bigelow, President and Chief Executive Officer
J. N. Turvey, Secretary-Treasurer
B. F. Michetti, Assistant-Secretary

Executive Office:

17 Street & 45 Avenue
P.O. Box 5805, Station "L"
Edmonton, Alberta

Transfer Agent and Registrar:

National Trust Company Limited, Toronto

Stock Exchanges:

Toronto Stock Exchange, Toronto
Montreal Stock Exchange, Montreal

Bankers:

The Royal Bank of Canada, Edmonton

Solicitors:

MacPherson, Leslie & Tyerman, Regina

Auditors:

Dunwoody & Company, Edmonton

